



## Performance Audit Division

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### State Health Benefit Plan

#### Requested Information on Plan Stability

#### BACKGROUND

The House Appropriations Committee requested this special examination of the State Health Benefit Plan (SHBP). Based on the request, we determined: (1) how SHBP's financial status has changed; (2) what factors have contributed to changes in the Plan's financial status; and (3) what the revenue and expenditure projections were for fiscal years 2018-2022 and how they compared with actuals. This review did not examine Plan administration or contract management.

The State Health Benefit Plan was created to provide affordable, quality healthcare coverage that is competitive with other commercial benefit plans in quality of care, access to providers, and efficient management of provider fees and utilization. The Plan provides benefits for employees and dependents of the State Employees Plan, Teachers Plan, and School Employees Plan.

The Department of Community Health administers the Plan, and the Board of Community Health provides policy direction for the Plan's operation. As of November 2022, 661,514 members were covered by the Plan. Active members comprised 72% of total membership and retirees accounted for 28%.

#### KEY RECOMMENDATIONS

This report is intended to answer questions posed by the House Appropriations Committee and to help inform policy decisions.

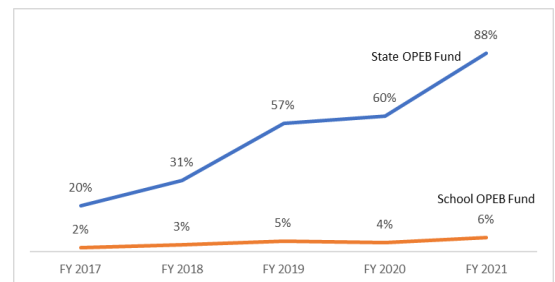
#### KEY FINDINGS

While State Health Benefit Plan revenue and expenditures have increased since 2018, the increase in expenditures between fiscal years 2020 and 2022 exceeded the increase in revenues. Revenue growth has been limited by policy decisions and stagnant subscriber levels.

##### The SHBP Fund's net position has increased over the past five years.

- Health insurance benefits for active members are paid through the SHBP Fund. Between fiscal years 2017 and 2021, the SHBP Fund's net position (which reflects its financial stability) increased by 5%—from \$571.7 million to \$602.0 million. However, the Fund operated at a loss in fiscal year 2021, with expenditures exceeding revenues by approximately \$93.5 million.

- Health insurance benefits for retirees are paid through two Other Post Employment Benefit (OPEB) Funds. At the end of fiscal year 2021, the State OPEB Fund was 88% funded. By contrast, the School OPEB Fund was only 6% funded



because surpluses in the Teachers and School Employees Plans have been significantly smaller than those in the State Employees Plan.

##### Over the past few years, Plan expenditures have outpaced revenues, resulting in an increasing amount of state funds to cover teachers' and school employees' healthcare costs.

- While total Plan expenditures increased by approximately 28% between fiscal years 2018 and 2022, revenues increased by only 3%.
- Revenue for the Teachers and School Employees Plans has not been sufficient to cover members' healthcare expenditures over the past few years. In fiscal year 2022, for example, SHBP expenditures for the Teachers Plan and School Employees Plan exceeded revenue by \$251 million and \$213 million, respectively. This difference was paid by the state.
- The revenue gap for the Teachers and School Employees Plans can be attributed to employer contribution rate differences. For the State Employees Plan, employers pay 29.454% of salaries for all state employees (regardless of enrollment in SHBP) annually. For the Teachers and School Employees Plans, employers pay \$11,340 annually (\$945/month) per covered employee, which—particularly for teachers—can result in a lower effective contribution rate.

##### Actuarial revenue and expense projections have been accurate.

- Plan revenue and expenditure projections are calculated based on historic trends and updated regularly.
- The projections—which are sent to the Governor's Office of Planning and Budget to assist in setting rates—have been accurate over the past five years (less than 3.5% difference from actual revenues and less than 2.0% difference from actual expenditures).